

SCOTT





SCOTT PAPER LIMITED 1973 ANNUAL REPORT

Head office / New Westminster, British Columbia

Plants / New Westminster and Surrey, British Columbia
and Crabtree, Quebec

Sales offices / Vancouver, Winnipeg, Toronto, Montreal
and Dartmouth, Nova Scotia

Ce rapport annuel est publié en français en anglais. Si vous désirez
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VALUATION DAY VALUE

For Canadian capital gains tax purposes, valuation day
values of Scott Paper Limited securities are as follows:

Common Shares — \$ 18.50
1971 Series A Debentures — \$102.00

*The Cover: SCOTTIES new "Rediscover White" packages were
designed to convey the product's softness and high quality and
to fulfil consumer demands for package compatibility with home decor.*

TO OUR SHAREHOLDERS

In 1973, the company achieved all-time high records for sales and per-share earnings. Major factors contributing to the results were a buoyant Canadian economy, increased acceptance of our products, a reduction in Federal sales taxes on corporate earnings and increased levels of selling prices. Also of significance was the much greater utilization of paper-making and production equipment added over the past five years at a capital cost of \$23,372,000.

Both established and recently introduced Scott products showed significant gains, based on the continuation of our quality and value concept combined with aggressive marketing and consumer advertising programs.

In all divisions of the company, Scott men and women worked effectively together to reduce the impact of rapidly rising costs and to increase productivity. Improved employee-management communications emphasized the necessity of increasing the rate of return on the investment of shareholders.

A forecast for the near-term future would be of doubtful validity at this time. If world demand for many commodities continues to exceed their availability, shortages of some of the raw materials required for our production processes could occur.

The determination of market growth prospects for 1974 is also complicated by the difficulties involved in assessing the effects of inflation on discretionary income levels and personal spending patterns.

Our return on net assets improved in 1973. However, it has not reached a level sufficient to encourage the major investments which will be required in the future. In order to supply our share of the market growth anticipated for sanitary and convenience products, additions to pulp and paper-making facilities will be required in the longer term.

For 1974, capital expenditures of \$9,000,000 are planned, principally to update existing production and distribution facilities, to provide for product development, and to carry out internal cost reduction projects.

The lower Federal tax rates on income and higher capital cost allowances have been major influences in formulating and accelerating current capital expenditures which will substantially improve the company's prospects for both sales growth and increased employment opportunities.

In October, and following his retirement as President and Director of Scott Paper Company, Philadelphia,



*Arthur F. Armstrong, Chairman and Chief Executive Officer and
George L. O'Leary, President and Chief Operations Officer.*

Mr. G. W. Pepper resigned from the Board of our company. Mr. Pepper had been associated with Scott Paper Limited since the Westminster/Scott affiliation in 1954, and had been a Director since 1967. During this time, he made many highly valued contributions to our growth and progress.

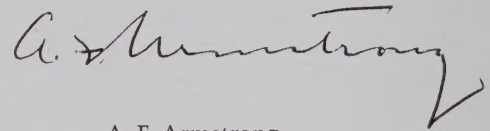
As announced in our 1972 report to shareholders, Mr. H. F. Winchell, Vice President of Engineering and Manufacturing Development, and a Director of the company, retired last April.

Succeeding Mr. Winchell, Mr. A. W. Fisher, Q.C., was elected to the Board at the 1973 Annual Meeting. Mr. W. D. H. Gardiner, Deputy Chairman of the Royal Bank of Canada, Toronto, was appointed to the Board to fill the vacancy caused by Mr. Pepper's retirement.

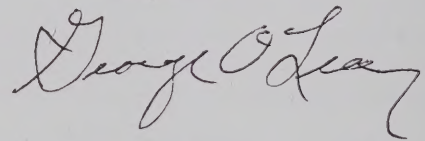
At this writing, with no serious interruptions in our supply of essential materials and energy, and with strong sales in the first two months of 1974, we are operating at near-capacity rates in both our Quebec and British Columbia manufacturing locations. Despite the uncertain near-term supply and market outlooks and the serious concerns about the

unprecedented inflation in manufacturing and distribution costs, we can look forward with some degree of confidence to meaningful results from our plans to increase the return on assets employed in Scott Paper Limited as well as to more profitable growth for the company in the future.

For the Board of Directors,



A. F. Armstrong,
Chairman



G. L. O'Leary,
President

New Westminster, B.C.
March 26, 1974



Industrial Product Division introductions during the year included new gold dinner napkins, Scotties and Lady Scott continuous dispensing facial tissues, and Mediwipe hospital pack tissues. Consumer product innovations included decorated Viva towels and the new "Footworm" ScotTowel package. The Footworm ("46 feet longer") was part of an integrated marketing program which featured the additional roll length available in ScotTowels.

Financial Highlights

FOR THE YEAR	1973	1972	Percent Change
Net sales	\$56,294,879	\$48,117,769	17.0
Depreciation	2,394,159	2,031,235	17.9
Interest expense	1,099,232	1,103,356	(0.4)
Income before taxes	3,538,184	3,244,154	9.1
per share	4.42	4.06	
Income taxes	1,544,000	1,557,000	(0.8)
Income after taxes	1,994,184	1,687,154	18.2
per share	2.49	2.11	
Dividends	800,000	760,000	5.3
per share	1.00	.95	
Income reinvested in the business	1,194,184	927,154	28.8
Cash flow from operations	5,619,365	4,265,631	31.7
per share	7.02	5.33	
Capital expenditures	5,677,319	3,086,505	83.9
Salaries, wages and benefits	14,761,290	12,684,234	16.4
AT YEAR END			
Ratio current assets to current liabilities	1.7	2.0	
Long term debt	\$11,400,000	\$12,000,000	
Shareholders' interest per share	\$ 28.57	\$ 27.08	
Number of shares outstanding at year end	800,000	800,000	
Number of shareholders	1,156	1,205	
Number of employees	1,381	1,304	
Investment in assets per employee	\$ 27,300	\$ 27,400	

REPORT ON OPERATIONS

The year 1973, under unusual business conditions, was a year of substantial progress for Scott Paper Limited. Consolidated net sales increased by 17.0% to \$56,294,879, and net income amounted to \$1,994,184, or \$2.49 per share, for an increase of 18.2% over 1972. These results compared favourably to the sales and earnings gains of 12.1% and 6.4% respectively as reported for 1972.

Sales achievements for the year reflect improvements in realized prices for all of the company's product lines, and substantial increases in physical volume. In terms of unit sales, 1973 results were well balanced, as both the Consumer Products and the Industrial, Export and Specialty Products Divisions reported favorable sales growth for all product categories. Consumption rates,

as anticipated at the beginning of 1973, improved over 1972, and sales of Scott high quality products responded to the increased consumer demand. The market for disposable diapers continued to expand. Shipments and distribution of babyScott disposable diapers reached higher levels as this new product gained wider acceptance.

The expansion program undertaken by our Industrial Sales Division in Eastern Canada produced good results in 1973. The enthusiastic support of our new distributors in Ontario, Quebec and the Maritimes, together with that of our established industrial distributors and customers in the west contributed to record sales for this Division.

As the costs of chemical pulp, operating supplies,

wages and salaries rose far more rapidly than anticipated, it was necessary to increase selling prices on all product lines. However, these price increases were less than would otherwise have been necessary because of the reduction in Federal income tax rates.

Net income before taxes increased by 9.1% over 1972 to \$3,538,184 and, as previously stated, net income after taxes rose by 18.2% to \$1,994,184 on a net sales increase of 17%.

The total of current and deferred taxes payable declined by \$13,000 to \$1,544,000 and reflect an income tax rate of 43.6% for 1973 as compared to 48% in 1972. This lower rate results from the maximum reduction in the Federal income tax rate to 40% for manufacturing companies. The additional 3.6% relates to covering Provincial income and logging taxes over and above the amounts provided for Federal income taxes.

The substantial increase in the deferred portion of income taxes for the year is due to the Federal provision for accelerated capital cost allowance (depreciation for tax purposes) over two years. This sharply reduced the amount of current taxes payable from \$1,043,000 in 1972 to \$368,000 in 1973, as the company took advantage of the provision and invested \$5,677,319 in new job-producing facilities. Major renovations to installed papermaking capacity and further effluent treatment processes were included among the projects for the year.

Dividends were paid in 1973 at a rate of \$1.00 per common share and marked the 43rd consecutive year of dividend payment to shareholders.

During the past two years, several long range contracts for pulp, packaging materials and other vital operating supplies were successfully concluded. The company has secured pulp sources in both Eastern and Western Canada with both Scott affiliated and other companies. Energy supplies have been sufficient, but cost increases, particularly in the Eastern Manufacturing Division,

have had a material impact on total operating costs.

Substantial productivity gains were achieved through further changes in our distribution, warehousing and transportation facilities and programs. Good gains have been made in this segment of the company over the past several years.

The proportion of sales and earnings of the company derived from new products is growing and several new product planning and research projects initiated during 1973 have reached advanced stages of development. New and improved packaged products and the development of new markets have been and will continue to be the principal source of growth of investment and employment for your Company.

During the past year, employment, as a result of improved sales and earnings, increased by 6% and has now reached approximately 1,400 people. The company has again stepped up its training and communications programs and has expanded responsibilities for the people in many divisions.

New labour agreements were negotiated in 1973. The two-year agreements which were established with the production unions in Eastern and Western Canada will expire in mid-1975. The present contract with the Office and Technical Employees Union at New Westminster expires on May 31, 1974.

The company has continued its support of civic, cultural and educational activities through financial contributions and active participation by company personnel. Involvement in community related projects is increasing. Liaison and communication with various government and consumer departments and organizations are in effect through industry associations and through direct contact.

Scott Paper Limited has concluded its 52nd year of operation. During this time, many valued mutually beneficial relationships have been developed with suppliers, customers and financial institutions.

IN REVIEW

Deferred Income Taxes

Deferred income taxes have been the subject of much publicity in recent years. Our shareholders may appreciate an explanation of this provision in the income tax regulations and how it relates to Scott Paper Limited.

Deferred taxes result when a company invests large sums of money in buildings, machinery and equipment. Usually, a company's policy is to charge off the cost of these assets over their estimated useful lives. This annual charge for wear and tear on the assets is known as "depreciation" and is one of the expenses deducted in arriving at the net income of a company. The government, on the other hand, allows higher depreciation rates for income tax purposes than a company normally charges against its income. This results in a company paying less in income taxes during expansion periods than it would pay if its own depreciation rates applied. The difference between the taxes that are actually paid compared to the taxes that would have been paid is known as "deferred income taxes." When and if a company were to stop spending money for expansion, these deferred taxes would be paid over the following years. The government provides this tax incentive to encourage company growth and thereby to stimulate employment and provide other benefits to the Canadian economy.

During the 20-year period, 1954-1973, Scott Paper Limited spent approximately \$48.5 million on manufacturing facilities, increasing its employment from approximately 300 to 1,400 people and its sales from \$8.1 million to \$56.3 million. Over the period, the deferred tax provisions provided \$7.1 million in funds towards such expenditures. In turn, the government benefited from the income tax paid by the added employees, the income tax paid by the company on its growing profits, the federal sales tax payments derived from expanding sales dollars and, finally, the taxes paid by the suppliers of machinery, equipment, materials and services and their employees. These sources of revenue have provided the government with a substantial return on the \$7.1 million investment.

Distribution of Annual Revenue

The benefits to the community of a public corporation can be measured and expressed in many ways, but perhaps the most tangible of these is the financial

support derived from its business endeavours. Scott's stature as a corporate citizen has reached substantial proportions, as illustrated by the accompanying analysis of the distribution of 1973 gross sales revenues.

	\$	Per \$
1973 gross sales revenue, including federal sales tax collected	\$61,382,000	\$1.00
Payments to governments for income tax, sales taxes and property taxes	5,870,000	.10
To employees for wages, salaries and benefits	14,761,000	.24
To suppliers for purchased services and materials	35,132,000	.57
Invested for the construction and equipment of new manufacturing facilities	4,819,000	.08
Dividends to shareholders as a return on their investment	800,000	.01

Comparison of Historical Earnings Trends

Shareholders of Scott Paper Limited will be interested in an indication of the net income trend of their company as compared to that of the pulp and paper industry generally. The net income of Scott Paper Limited for the years 1969 through 1973 has been indexed and compared to that of the companies which are included in the Toronto Stock Exchange Paper and Forest index, using the year 1968 as a base equal to 100. In the table which follows, the industry index of 160 for the year 1973 was computed from earnings reported through nine months only, full year figures being unavailable at the time of preparation of this report.

	1968	1969	1970	1971	1972	1973
Scott Paper Limited	100	109	110	110	118	139
Forest Products Industry	100	119	58	50	95	160*
* nine months only						

These earnings reflect the difference between the Canadian market for consumer paper products, which has been expanding at a relatively steady rate, and Canadian and world markets for pulp, paper and wood products which have been subject to wide fluctuations in both demand and prices.

BEHIND THE SCENES AT SCOTT

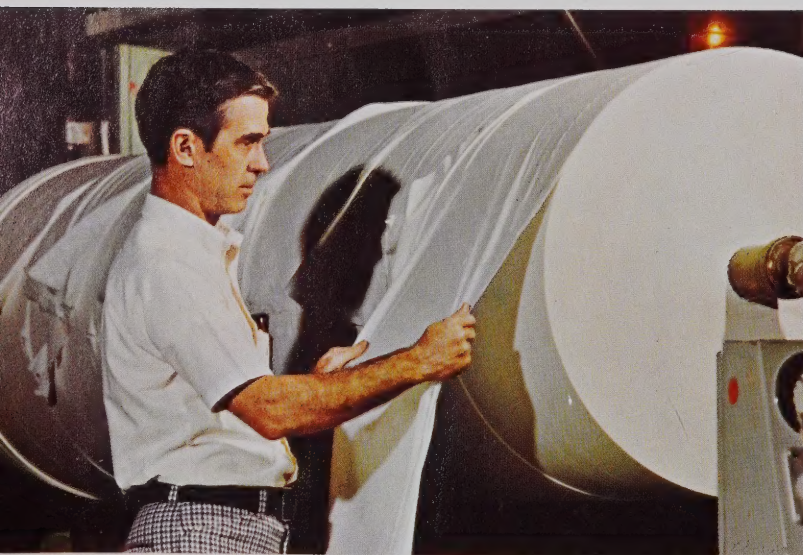
In 1973, Scott Paper Limited received and processed over 80,000 individual orders from customers at the company's two plants in Quebec and British Columbia. From its distribution centres at the plant locations and across Canada, approximately 6 million cases of Scott trademarked products as well as thousands of tons of export and bulk paper product rolls were shipped to customers in Canada and abroad.

While the consumer and industrial packaged products consist of just over 30 trademarks or brand names, we produce nearly 200 different packs and assortments made from 60 grades and types of paper.

A considerable degree of expertise is required to balance the demands of the market—the size of the inventories required to service our customers—and to insure a high level of product availability at all times.

Each of the company's seven paper machines—four at the Quebec plant and three at the British Columbia plant—are programmed to produce the grades of paper required, with the longest and most efficient runs possible based on market demand for grade, colour, etc.

The converting operations of the company are highly mechanized and require both highly skilled operators and knowledgeable maintenance personnel for their most efficient utilization.



A Consumer Representative on the job . . . a vital step in Scott's quality control program.



The process of balancing production schedules with sales demand forecasts is facilitated by Scott's computer centre.

A sophisticated computer-based data centre is utilized to coordinate sales estimates and needs of the market place from our customers and field sales personnel, with inventory levels and manufacturing schedules.

Basically, the sales requirements by brands—inventory levels, and production schedules are established on an annual plan basis which is checked and revised frequently to reflect changes in market demand, materials supply and manufacturing variations. It is our constant objective to improve service to our customers and to keep short shipments, shipment delays and out-of-stock situations to the lowest possible frequency.

Over the past five years, the company has invested millions of dollars in programs designed to increase productivity—to improve distribution facilities—to update materials handling, and to install the latest electronic order-processing equipment and procedures. For instance, a new system in the Eastern Manufacturing Division enables any-hour phone-in orders to be dispatched on a same-day basis, which results in

a considerably reduced shipping time between our Crabtree, Quebec plant and long-haul, eastern customer destinations. These and other innovations have resulted from extensive research and development in our marketing, manufacturing and service divisions, accompanied by imaginative innovations from many Scott people and assisted by training and inter-departmental communications programs.

In the planning and profit improvement division of our company, the data centre has been utilized to install a computer model of the company which assists in assessing capital investment alternatives, the financial impact of new products and the effects of proposed manufacturing changes, product cost increases, and all variations from budgeted costs and pricing levels.

This computer model is of significant assistance to company management in assessing the options and choices which are open in any given situation.

At present, Scott Paper Limited's marketing and customer service personnel are working on a universal product coding system in cooperation with other member companies of the Grocery Products Manufacturers Association of Canada. The objective of this program is to develop a system which can eventually lead to computerized ordering, shipping and invoicing of major high turnover consumer products throughout Canada's large grocery manufacturing and retailing industries.

In all these ventures and in our long range planning, the objective is to improve productivity, to keep costs at the lowest possible levels and to ensure that the highest levels of product quality and service to our thousands of customers are maintained and improved.

In these endeavours, in spite of the ever-increasing use of sophisticated machinery and computer equipment, Scott people and their ingenuity remain the key factors.

In Scott Paper Limited, we are both proud of and grateful to the 1,400 people who work in our various divisions and whose dedication to finding better ways of doing things is fully equal to and, in many instances, exceeds the usual effort and effectiveness found in most organizations of our type.

Canadian consumers have long been aware of the quality and value of Scott products in the market place. Periodic reports to shareholders contain detailed information on operating results, on sales increases and on profits.

Very little, if any, of the significant growth and progress reported by the company in 1973 and past years, would have been possible without the enthusiastic teamwork and skill of the many people behind the scenes who make the difference, in achieving our balanced growth objectives.



Scott Product Managers are the principal source of information about their brands, through their coordination of communications between company and consumer.

Consolidated Statements of Income and Retained Income

	Year ended December 31	
	1973	1972
<i>Income:</i>		
Sales, less allowances and after deducting		
Federal sales tax of \$5,086,788 (1972—\$4,784,593) ..	\$56,294,879	\$48,117,769
<i>Expenses (Note 7):</i>		
Cost of products sold	38,288,081	31,571,209
Selling and distribution expenses	11,186,547	10,372,956
Administrative and general expenses	2,182,835	1,826,094
Debenture interest and amortization of issue costs ...	1,054,681	1,075,899
Bank interest	44,551	27,457
	<u>52,756,695</u>	<u>44,873,615</u>
Income before income taxes	<u>3,538,184</u>	<u>3,244,154</u>
<i>Income taxes:</i>		
Current	368,000	1,043,000
Deferred	1,176,000	514,000
	<u>1,544,000</u>	<u>1,557,000</u>
Income for the year	<u>\$ 1,994,184</u>	<u>\$ 1,687,154</u>
Income per share	<u>\$2.49</u>	<u>\$2.11</u>
<i>Retained income:</i>		
Retained income at beginning of year	\$15,060,062	\$14,132,908
Income for the year	<u>1,994,184</u>	<u>1,687,154</u>
	<u>17,054,246</u>	<u>15,820,062</u>
Dividends—\$1.00 per share (1972—95c per share)	800,000	760,000
Retained income at end of year	<u>\$16,254,246</u>	<u>\$15,060,062</u>

Consolidated Statement of Financial Position

	Year ended December 31	
	1973	1972
CURRENT ASSETS:		
Cash	\$ 22,949	\$ 23,300
Trade and other accounts receivable	4,825,110	3,500,462
Inventories (Note 2)	8,987,011	9,469,081
Prepaid expenses	139,389	255,187
	<u>13,974,459</u>	<u>13,248,030</u>
CURRENT LIABILITIES:		
Bank indebtedness (Note 3)	2,653,637	1,130,782
Accounts payable and accrued liabilities	5,393,461	5,185,841
Income taxes payable	194,435	161,918
	<u>8,241,533</u>	<u>6,478,541</u>
Working capital	<u>5,732,926</u>	<u>6,769,489</u>
<i>Add—</i>		
NON-CURRENT ASSETS:		
Fixed assets (Note 4)	31,030,892	28,206,145
Unamortized debenture discount and issue expenses	453,677	479,677
Miscellaneous assets	246,751	238,751
	<u>31,731,320</u>	<u>28,924,573</u>
<i>Deduct—</i>		
NON-CURRENT LIABILITIES:		
8¾ % sinking fund debentures, Series A (Note 5) ..	12,000,000	12,000,000
<i>Less:</i> 8¾ % sinking fund debentures, Series A, purchased during the year for sinking fund purposes	600,000	—
	<u>11,400,000</u>	<u>12,000,000</u>
Deferred income taxes (Note 1)	3,210,000	2,034,000
	<u>14,610,000</u>	<u>14,034,000</u>
Net assets	<u>\$22,854,246</u>	<u>\$21,660,062</u>
SHAREHOLDERS' INTEREST:		
Share capital (Note 6)	\$ 6,600,000	\$ 6,600,000
Retained income	<u>16,254,246</u>	<u>15,060,062</u>
	<u>\$22,854,246</u>	<u>\$21,660,062</u>
APPROVED BY THE BOARD:		
Arthur F. Armstrong, <i>Director</i>		
Alex W. Fisher, <i>Director</i>		

Notes to Consolidated Financial Statements As at December 31, 1973

1. Accounting policies:

Principles of consolidation—

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. The subsidiaries are Westminster Paper Company Limited, operating, and Omega Products Limited, non-operating.

Inventories—

Inventories of finished products and work in process are valued at the lower of average cost and market value determined on the basis of net realizable value. Raw materials and supplies are valued at average cost which is not in excess of replacement cost.

Buildings, machinery and equipment—

Buildings, machinery and equipment are stated at cost. Depreciation is provided for over their useful lives on a straight-line method at rates varying from 2½% to 20%.

Deferred income taxes—

On January 1, 1968 the company adopted the tax allocation method of accounting for income taxes for all periods subsequent to that date.

Prior to January 1, 1968 the Company followed the policy of charging against earnings only income taxes actually payable after claiming maximum capital cost allowances available for income tax purposes on its fixed assets. Because capital cost allowances exceeded depreciation provided in the financial statements for those years, there are accumulated reductions in income taxes otherwise payable of approximately \$3,902,000 which have not been recorded as deferred income taxes.

Unamortized debenture discount and issue expenses—

The amortization of debenture discount and issue expenses is computed on a basis related to the principal amount outstanding.

2. Inventories:

Inventories consist of—

	December 31	
	1973	1972
Finished products and work in process	\$ 5,157,177	\$ 5,849,331
Raw materials and supplies	3,829,834	3,619,750
	<u>\$ 8,987,011</u>	<u>\$ 9,469,081</u>

3. Bank indebtedness:

The bank indebtedness includes unpresented cheques and is secured by a pledge of the Company's accounts receivable and inventories.

4. Fixed assets:

	December 31	
	1973	1972
Fixed assets consist of—		
Land, at cost	\$ 493,682	\$ 472,805
Buildings, machinery and equipment, at cost . . .	50,680,425	45,816,236
Less: Accumulated depreciation	20,143,215	18,082,896
Net book value of depreciable assets	<u>30,537,210</u>	<u>27,733,340</u>
	<u>\$31,030,892</u>	<u>\$28,206,145</u>

5. 8¾% Sinking fund debentures, Series A:

On July 2, 1971 the Company issued \$12,000,000 8¾% sinking fund debentures, Series A, maturing on July 2, 1991. By the terms of the mandatory sinking fund provisions the Company is required to retire \$360,000 of the debentures per annum commencing on July 2, 1974. The company also has an option to retire a further \$180,000 per annum. The debenture trust agreement contains a distribution test formula which limits the availability of retained earnings for the payment of dividends. As of December 31, 1973 approximately \$5,000,000 is available for distribution.

As of December 31, 1973 the Company had acquired \$600,000 of the Series A debentures for the purpose of meeting their future sinking fund requirements.

6. Share capital:

The authorized share capital of Scott Paper Limited consists of 2,000,000 common shares without par value of which 800,000 are issued and outstanding. Of the 1,200,000 unissued shares, 50,000 are reserved for options under the "Key Employees' Stock Option Plan". As at December 31, 1973 options to purchase 7,500 shares are outstanding (but not yet exercised) at prices of \$30.62 and \$36.75 per share, valid for varying dates to 1975.

7. Expenses include depreciation of \$2,394,162 (1972—\$2,031,235) and directors' and senior officers' remuneration of \$391,595 (1972—\$410,504 restated to reflect provisions of new B.C. Companies Act).

8. Pension plans:

The Company has a number of contributory Pension plans participation being available to substantially all of its employees. Length of service and individual earnings determine the pensions and retirement benefits for all members of the plans. It is the Company's practice to provide for its share of the cost of Pensions and retirement benefits accrued, through charges to earnings determined by periodic actuarial computations. At December 31, 1973 the Pension plans were sufficiently funded to meet obligations at that date.

Consolidated Statement of Source and Application of Working Capital

	Year ended December 31	
	1973	1972
Source:		
Operations—		
Income for the year	\$ 1,994,184	\$ 1,687,154
Add—		
Charges which did not involve an outlay of working capital:		
Depreciation	2,394,159	2,031,235
Deferred income taxes	1,176,000	514,000
Amortization of debenture issue costs ..	26,000	25,897
Loss on disposal of fixed assets	29,022	—
Amounts written off miscellaneous assets	—	7,345
	5,619,365	4,265,631
Proceeds on disposal of fixed assets	23,015	55,346
Capital grant from the Province of Quebec	406,376	—
	6,048,756	4,320,977
Application:		
Additions to fixed assets	5,677,319	3,086,505
Dividends	800,000	760,000
Purchase of 8¾ % debentures, Series A	600,000	—
Increase in miscellaneous assets	8,000	—
	7,085,319	3,846,505
Increase (decrease) in working capital during the year	(1,036,563)	474,472
Working capital at beginning of year	6,769,489	6,295,017
Working capital at end of year	<u>\$ 5,732,926</u>	<u>\$ 6,769,489</u>

Auditors' Report

1075 West Georgia Street
Vancouver 5, B.C.
February 12, 1974

To the Shareholders of Scott Paper Limited:

We have examined the consolidated statement of financial position of Scott Paper Limited and its subsidiary companies as at December 31, 1973 and the consolidated statements of income and retained income and source and application of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants

SCOTT PAPER LIMITED ANNUAL REPORT 1973

To the Shareholders

Consolidated net sales in the second quarter amounted to \$13,443,363 — an increase of 9.2% from \$12,309,081 achieved in the corresponding period of 1972.

Second quarter net income amounted to \$385,736, or 48c. per share — up 4.7% from the \$368,555, or 46c. per share, earned in the similar period of last year.

For the first six months of 1973, net sales amounted to \$28,705,602 — an increase of 12.7% over the \$25,462,959 of the first six months of 1972. Net income amounted to \$969,904, or \$1.21 per share — up 4.5% from \$928,025, or \$1.16 per share, earned in the first half of 1972.

Dividends paid in the first half of 1973 amounted to 50c. per common share compared to 45c. per share for the similar period of 1972.

Sales of all the company's product groups increased over the first six months of last year, reflecting both growth in the overall consumption of sanitary paper products in Canada and an encouraging increase in consumer preferences for Scott retail and industrial packaged products. Sales of parent rolls in both the domestic and export markets were also up over last year's levels.

Operating, distribution and marketing costs continued to increase at an unprecedented rate, with resulting pressures on profit margins. In the second half we will be required to absorb large additional cost increases — particularly for purchased pulp and wages. The recently enacted reduction in federal income taxes, strong sales growth and improved productivity, have only partially offset rising costs. Thus, further price increases in the second half of the year are necessary and are being implemented.

The Company is continuing to invest heavily in new equipment and plant improvements, with the majority of capital funds going to projects concerned with additional product lines and increasing efficiencies. We expect a continuation of the healthy sales growth for the remainder of 1973. In the longer term, improvement in profitability can be anticipated from current expenditures on manufacturing facilities and the marketing investments for new products.

FOR THE BOARD OF DIRECTORS


A. F. Armstrong,
Chairman.

New Westminster, B. C.
July 17, 1973.



SCOTT PAPER LIMITED

BOX 760, NEW WESTMINSTER, B. C. CANADA

CanCorp

SCOTT PAPER LIMITED

STATEMENT OF OPERATIONS

for the

First Six Months of 1973

SCOTT PAPER LIMITED

CONSOLIDATED STATEMENT OF INCOME FOR THE FIRST SIX MONTHS OF 1973 (with corresponding amounts for 1972)

	First Six Months 1973	First Six Months 1972
Sales, less discounts and allowances	\$28,705,602	\$25,462,959
Expenses (Note 1):		
Cost of products sold	19,740,873	17,208,747
Marketing, general, administrative and development expenses	7,224,137	6,476,949
	26,965,010	23,685,696
Income before taxes	1,740,592	1,777,263
Provision for taxes on income (Note 2)	770,688	849,238
Income after taxes for the period	\$ 969,904	\$ 928,025
Income per share after taxes	\$1.21	\$1.16
Dividends paid per share	.50	.45
Number of shares outstanding	800,000	800,000

NOTE 1—Expenses include depreciation of \$1,119,132 (1972 - \$957,227).

NOTE 2—The provision for taxes has been calculated at approximately 44%, our present estimate of the rates prevailing under the latest revisions to Federal and Provincial tax legislation.

Subject to audit and year-end adjustment.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL FOR THE SIX MONTHS ENDED JUNE 30, 1973

(With corresponding amounts for the six months ended July 1, 1972.)

	First Six Months 1973	First Six Months 1972
SOURCE:		
Income for the period	\$ 969,904	\$ 928,025
Add—		
Charges which did not involve an outlay of working capital:		
Depreciation (Note 1)	1,119,132	957,227
Deferred income taxes	550,000	280,000
Amortization of debt-ture issue costs	12,896	12,949
	\$ 2,651,932	\$ 2,178,201
APPLICATION:		
Net additions to fixed assets	\$ 1,798,958	\$ 1,466,946
Dividends	400,000	360,000
Decrease Series A debentures	100,000	—
Net increase (decrease) miscellaneous assets	4,000	(2,200)
	\$ 2,302,958	\$ 1,824,746
Increase in working capital during the period	348,974	353,455
Add—		
Working capital at beginning of the year	6,769,489	6,295,017
Working capital at end of the period	\$ 7,118,463	\$ 6,648,472